Title I loans and insured mortgages, respectively. A mortgagee or lender approved under this section is not required to meet a net worth requirement. A mortgagee shall maintain fidelity bond coverage and errors and omissions insurance acceptable to the Secretary and in an amount required by the Secretary, or alternative insurance coverage approved by the Secretary, that assures the faithful performance of the responsibilities of the mortgagee. There are no additional requirements beyond the general approval requirements in § 202.5 or as provided under paragraph (b) of this section.

(b) *Public housing agencies and State housing agencies.* Under such terms and conditions as the Secretary may prescribe and notwithstanding the general requirements of § 202.5 or the requirements of paragraph (a) of this section, a public housing agency or its instrumentality or a State housing agency may be approved as a mortgagee for the purpose of originating and holding multifamily mortgages funded by issuance of tax exempt obligations by the agency.

(c) *Audit requirements.* The insuring of loans and mortgages under the Act constitutes ''financial assistance'' for purposes of audit requirements set out in part 44 of this title. State and local governments (as defined in 24 CFR 44.2) that receive insurance as lenders and mortgagees shall conduct audits in accordance with HUD audit requirements at part 44 of this title.

Subpart C—Title I and Title II Specific Requirements

§ 202.11 Title I.

(a) *Administrative actions*—(1) *Types of action.* In addition to termination of the Contract of Insurance, certain sanctions may be imposed under the Title I program. The administrative actions that may be applied are set forth in 24 CFR 25.5. Civil money penalties may be imposed against Title I lenders and mortgagees pursuant to § 25.12 and part 30 of this title.

(2) *Grounds for action.* Administrative actions shall be based upon both the grounds set forth in § 25.9 and as follows:

(i) Failure to properly supervise and monitor dealers under the provisions of part 201 of this title;

(ii) Exhaustion of the general insurance reserve established under part 201 of this title;

(iii) Maintenance of a Title I claims/loan ratio representing an unacceptable risk to the Department; or

(iv) Transfer of a Title I loan to a party that does not have a valid Title I Contract of Insurance.

(b) [Reserved]

§ 202.12 Title II.

(a) *Tiered pricing*—(1) *General requirements*—(i) *Prohibition against excess variation.* The customary lending practices of a mortgagee for its single family insured mortgages shall not provide for a variation in mortgage charge rates that exceeds two percentage points. A variation is determined as provided in paragraph (a)(6) of this section.

(ii) *Customary lending practices.* The customary lending practices of a mortgagee include all single family insured mortgages originated by the mortgagee, including those funded by the mortgagee or purchased from the originator if requirements of the mortgagee have the effect of leading to violation of this section by the originator. The responsibility of sponsors of loan correspondent mortgagees is also governed by § 202.8(b)(7).

(iii) *Basis for permissible variations.* Any variations in the mortgage charge rate up to two percentage points under the mortgagee's customary lending practices must be based on actual variations in fees or cost to the mortgagee to make the mortgage loan, which shall be determined after accounting for the value of servicing rights generated by making the loan and other income to the mortgagee related to the loan. Fees or costs must be fully documented for each specific loan.

(2) *Area.* For purposes of this section, an area is:

(i) An area used by HUD for purposes of § 203.18(a) of this chapter to determine the median 1-family house price for an area; or

(ii) The area served by a HUD field office but excluding any area included in paragraph (a)(2)(i) of this section.